

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON NONGOMA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Nongoma Municipality set out on pages 5 to 50, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nongoma Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 30 to the financial statements, the corresponding figures for 2010-11 have been restated as a result of an error discovered during 2011-12 in the financial statements of the Nongoma municipality at, and for the year ended 2011-12.

As disclosed in note 30 of the financial statements, the corresponding figures relating to the Provision for post-retirement benefit, operating lease, provision for long term service awards, property rentals, property plant and equipment and intangible assets have been restated due to errors identified in the current financial period.

Irregular expenditure

9. As disclosed in note 33 irregular expenditure amounting to R1,4million was incurred by the Municipality as a result of the contravention of the SCM regulations.

Material losses/ Impairments

10. The Municipality's provision for doubtful debts increased by R1 508 066 in the current financial period resulting in the debt impairment movement in the statement of financial position.
11. The Municipality incurred R3 433 744 impairment on Property Plant and equipment during the year under review as per note 3 of the Annual Financial Statements.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The supplementary information set out on pages 49 – 53 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the performance information in the Nongoma Municipality annual performance report as set out on pages 102 to 147 of the annual performance report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and

time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the Nongoma Municipality annual performance report concerning the usefulness and reliability of the information

Additional matters

We draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

15. Of the total number of 105 targets planned for the year, 34 of targets were not achieved during the year under review. This represents 30% of total planned targets that were not achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process

Material adjustments to the Nongoma Municipality draft annual report

16. Material audit adjustments in the draft annual performance report were identified during the audit, of which were corrected by management

Compliance with laws and regulations

17. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic Planning and performance management

18. Contrary to section 62(1)(c)(i) of the MFMA Act, the accounting officer received the audit request for preparation of the audit file in February 2012. These documents were not ready when the audit commenced on 10th of September.
19. Contrary to section 46(2)(a) of the MFMA Act, we identified that council had not approved the purchase of the ISUZU purchase on finance lease neither was a resolution passed for this purchase on finance lease.
20. Contrary to section 127 (5)(a), we identified that the municipality's website is not operating effectively, hence reports are not made via this medium. On enquiry with the CFO, he stated that an advertisement was placed in the local newspaper, Ilanga. We have not received any evidence of this advertisement being placed.
21. Contrary to section 129(3), no evidence of the oversight report being made public could be identified.
22. Contrary to section 129(1), no evidence of the oversight report could be identified.

23. Contrary to the GRAP framework, paragraph 37, the amount of R581.16 which had been recorded in the incorrect accounting period.
24. Contrary to section 62(1)(c)(i) of the MFMA Act, bank reconciliations could not be identified.
25. Contrary to section 62(1)(c)(i) of the MFMA Act, certain bank reconciliation were not unauthorized.
26. Contrary to section 45(3) there was an amount of R135, 995 that was not approved by the council for overdraft facilities.
27. Contrary to S9 of the MFMA, no evidence could be furnished in respect of the Municipality's submission of the bank detail to the Auditor-General at the beginning of the financial year.
28. Contrary to section 62(1)(c)(i), no evidence was found for employee performance assessments for the 2010/2011 financial period.
29. Contrary to section 75 of the MFMA Act, inspection of the municipality's website indicated that the website is inactive therefore no evidence could be obtained to verify that the requirements of section 75 of the MFMA are met.
30. Contrary to section 62(1)(c)(i) of the MFMA Act, during our audit we identified that the organization structure recorded in the audit file was not up to date (the municipal manager was disclosed as VP Zulu. The current MM is Mr. BE Ntanzi). On enquiry with Mr. Dladla (director of corporate services) an additional high-level structure was given to us. This however excludes the heads of financial services and traffic, VIP protection & licensing services.
Furthermore, when comparing the detailed organizational organogram, the list of positions was compared to a list of vacancies for the year ending 30 June 2012. We noted that the following positions were listed as vacant however were not budgeted for as per the organogram. 1) Drive r operator refuse, 2) SCM manager, 3) 4 fire fighters, 4) 2 body guards.
31. Contrary to section 70(1)(ii), there was no evidence during the year for approval of overspending by the municipal council.
32. Contrary to section 71(1) of the Act, we identified that the listing of documents submitted to the National Treasury were submitted late to the treasury, except for the months of February 2011 and May 2011.
33. Contrary to section 71(2), per inspection of the report, no projection of revenue and expenditure were detailed.
34. Contrary to section 62(1)(c)(i) of the MFMA Act, we identified that there are no controls over the work performed of an outside institution (PricewaterhouseCoopers, KPMG and Aurecon) and over the completeness and accuracy of the information provided to the outside service organization.
35. Contrary to section 62(1)(c)(i) of the MFMA Act, the cashier does not always sign the Daily Banking Register as evidence of taking the money. Furthermore, internal audit confirmed that she is not accompanied by a security guard to the bank to make the deposit.

36. Contrary to section 62(1)(c)(i) of the MFMA Act, we identified that the municipality does not have a formal policy to ensure skills retention and monitoring of the competency of staff members. This is to ensure that the relevant skill and competent staff are retained.
37. Contrary to section 62(1)(c)(i) of the MFMA Act, we identified that certain employees were excluded from the appointment process and no interview screenings were performed before these employees were employed by the municipality.
38. Contrary to section 62(1)(b), no supporting documentation has been found for debit orders being paid by the municipality.
39. Contrary to section 15 of the MFMA Act, the Municipality incurred expenditure above the approved budget to the amount of R12 728 824.
40. Contrary to section 41(1)(d) of the MFMA Act, insufficient evidence could be provided to prove that mechanisms, systems and processes exist for monitoring of the under-performance and taking corrective measures for under-performance.
41. Contrary to section 62(1)(c)(i) of the MFMA Act, we identified the following inconsistencies when comparing supplier balances to supplier statements:
 - For Rennies Travel Pty Ltd we identified that Invoices were identified from the creditor's reconciliation that were not captured in the general ledger. These invoices were dated 30 June 2012 and should be captured in the general ledger-invoice amount R91,797.15.
 - For supplier Aurecon South Africa (Pty) Ltd, we identified that an invoice was duplicated and at year end was not reversed. The invoice amounted to approximately R80,210.84
42. Contrary to Regulation 8 of the MPPMR, no evidence could be provided to indicate that the council adopted the PMS before or at the same time as the commencement by the municipality of the process of setting key performance indicators and targets in accordance with its integrated development plan.
43. Contrary to S72 of the MFMA, the accounting officer of the Nongoma municipality did not by 25 January of the financial year assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan.
44. Contrary to section 62(1)(c)(i) of the MFMA Act, it was noted that the debtor's master file has insufficient contact information which makes monitoring in terms of subsequent follow up and recovery of long outstanding debtors difficult. This is further evident by the need for an increase in doubtful debt provision during the financial period.
45. Contrary to section 23(4), no valuation roll reconciliation was performed for the 2011/2012. 2010/2011 valuation recon was given to the auditor; the period under review was not given to us. Nana stated that the Valuation roll and recon is the same document, but it is different.
46. Contrary to the requirements of S64(2) of the MFMA, the Municipality has a balance of R 164 882 within the debtor amount relating to deposits received from customers not yet allocated. The balance has accumulated over the years and it is not reviewed or cleared regularly.

47. Contrary to section 62(1)(c)(i) of the MFMA Act, we identified finance charges were overstated by R36, 350 due to an unexplained adjustment passed to deferred finance charges. On inspection of the deferred finance charges account (Statement of Financial Position) and the finance charges account (Statement of Financial Performance), there balances and figures are correct before the adjustment was made.
48. Contrary to section 62(1)(c)(i) of the MFMA Act, we conducted audit tests to ensure that physical assets existed and that all assets were recorded on the fixed asset register. The following matters were identified:
- We identified that the following assets were not tagged
 - Assets were disposed of however no evidence of such
 - Assets could not be verified due to inadequate identification procedures.

Budgets

49. Contrary to section 21(1)(b), there was no evidence furnished indicating that the Mayor had at least 10 months before the start of the budget year tabled in the municipal council the time schedule outlining key deadlines for preparation, tabling and approval of the budget and review of IDP and budget related policies as required by s21(1)(b) of the MFMA.
50. Contrary to section 24, no evidence has been identified for approval of measureable performance objectives.
51. In terms of Section 32 (1) (b) of the MFMA Act, the accounting officer is liable for unauthorized expenditure deliberately or negligently incurred by the accounting officer, subject to section 32(3); we identified that an amount of R12, 728,824 was spent above the approved budget.
52. Contrary to section 45(3) there was an amount of R135, 995 that was not approved by the council for overdraft facilities.
53. Contrary to section 45 (3), the credit limit was approved by the council for emergency use, however as per the CFO, there is no documentation regarding this bank overdraft and the repayment options. There is no documentation regarding communication of the bank overdraft between the municipality and the National Treasury. There was no step taken to correct the matter.
54. Contrary to the requirements of section 69(3) of the MFMA, no evidence could be furnished indicating that the accounting officer submitted to the mayor within 14 days after the approval of the annual budget the draft SDBIP and the draft annual performance agreements as required in terms of section 57(1)(b) of the MSA.
55. Contrary to section 24 of the MFMA Act, no evidence was provided to evidence that the mayor approved the budget implementation plan within 28 days after approval of the budget.

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56. Contrary to sections 38, 39, 40 and 41 of the Municipal Systems Act, no evidence could be obtained regarding the implementation of a proper management system by the Municipality.

Audit committee

57. Contrary to the requirement of section 166 of the Municipal Financial Management Act (MFMA), the audit committee did not discharge its responsibilities.

Procurement and Contract management

58. Contrary to regulation 17 of the SCM policy, we identified that purchase from certain suppliers who did not have 3 quotations attached before purchases were incurred.
59. Contrary to the SCM regulation 46(2)(c) and (6); SCM Regulation 47(1) and (3), we have not identified evidence of any employee, councilor or role-player declaring any financial interests.
60. Contrary to regulation 18(e) of the SCM policy, we identified that a purchase amounting to R4, 200 from Andisa Nami Management was selected; however this was not the lowest bidder. There was no evidence documenting why this supplier purchase had been selected.
61. Contrary to regulation 27, 28 and 29 of SCM policy, prior to November 2011, the following purchases were not supported by an evidence of a meeting for the 3 required committees. These being the specification committee, the bid adjudication committee and the bid selection committees.
62. Contrary to regulation 21(a) of the SCM policy, no proper contract agreements prepared in accordance with the general conditions of contracts (GCC) as prescribed by National Treasury.
63. During our audit we identified an allowance is being given to employees employed as body guards. The value of this allowance is R5, 000 per month. We reviewed the South African Local Government Bargaining Council agreement which does not allow for payment of this allowance.
64. Contrary to section 65(2)(e), we identified that certain suppliers were not paid within 30 days of receipt of goods.

Expenditure Management

65. Contrary to section 62(1)(c)(i) of the MFMA Act, we identified an amount of R200, 000 paid for the Pauper Burial Policy, pound policy. This amount was approved by the previous CFO, Mr. Mthethwa. On inspection of the policy, we identified that the policy was not signed by either party and was issued during November 2011.

Internal control

66. I considered internal control relevant to my audit of the financial statements, annual performance report] and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for my opinion, [the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

67. The accounting officer does not exercise oversight responsibility over performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate performance reporting. Control weaknesses are not analysed and appropriate follow-up actions to address risks relating to the achievement of performance reporting objectives are not implemented.

Financial and performance management

68. Systems are not appropriate to facilitate the preparation of quality financial statements and performance reports and to facilitate proper daily and monthly processing and reconciling of transactions. The financial statements were subject to material amendments resulting from the audit.

Governance

69. The municipality did not have a properly functioning audit committee to review the effectiveness of the internal control system, risk areas of the municipality's operations, adequacy and reliability of financial information and performance information, and compliance with applicable laws and regulations.

Auditor-General

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence